



Institute for
Fiscal Studies

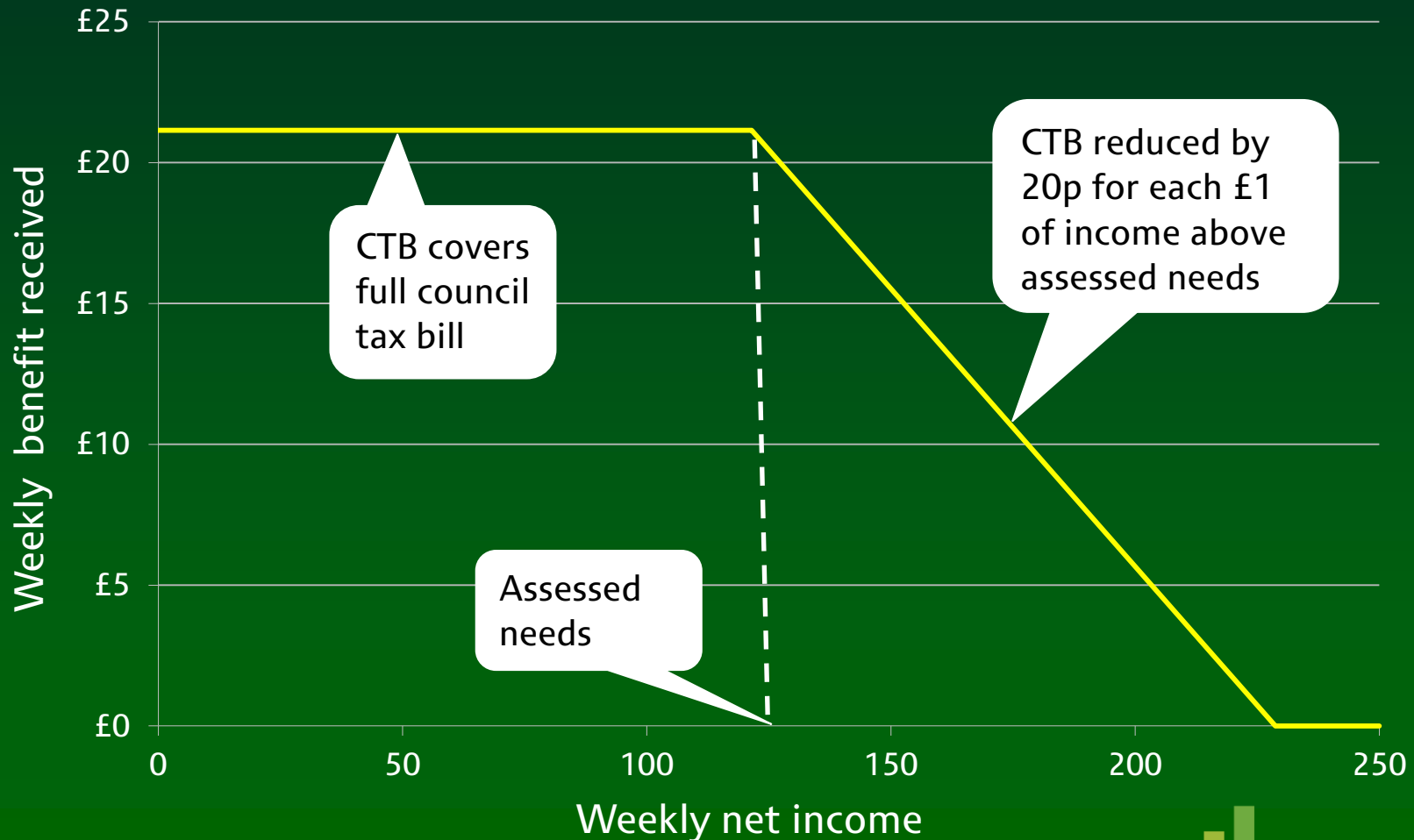
The policy and its likely effects

Stuart Adam

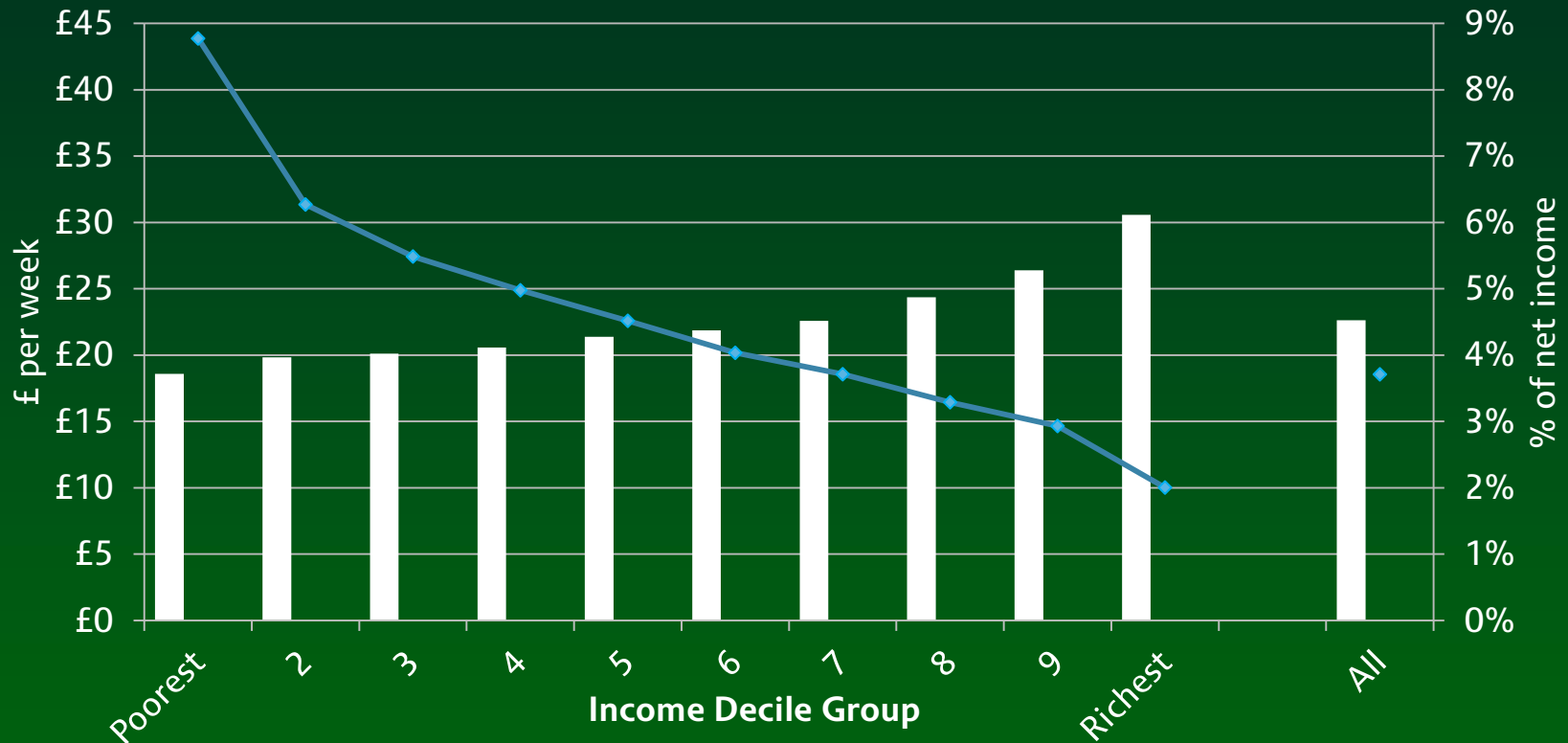
Council Tax Benefit – the key facts

- 5.9 million recipients
 - More than any other means-tested benefit or tax credit
 - But only two-thirds of those entitled to it
- £4.9 billion total cost
 - 2.4% of total benefit and tax credit expenditure
 - £15.69 per claimant per week is not large relative to other benefits
- Administered by local authorities but rules set by central government
- Maximum entitlement is the household's council tax bill
 - Reduced by 20p per £1 of net income above a threshold
 - Two thirds of claimants 'passported' to full entitlement by receipt of another benefit

An example of CTB entitlement by income



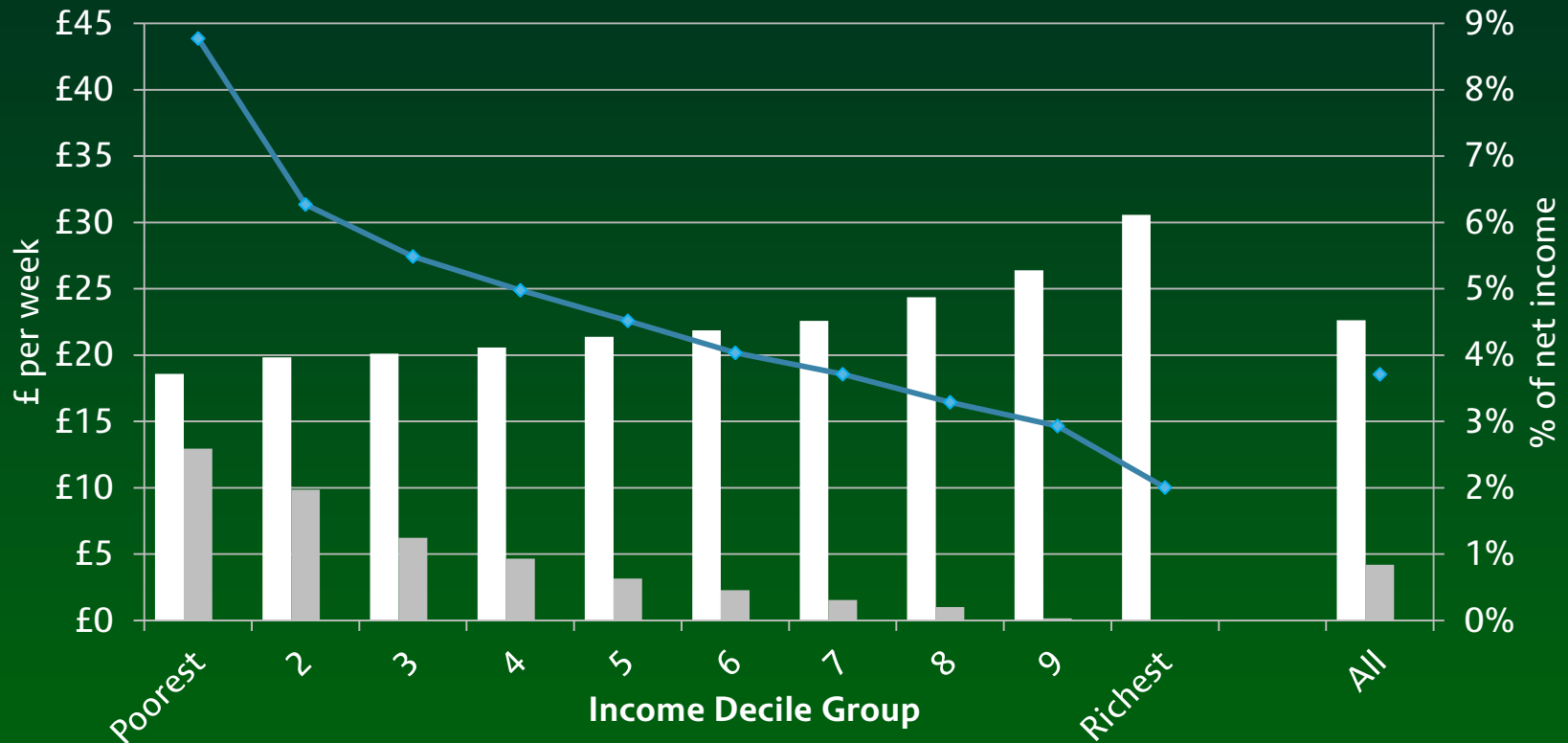
Distributional impact of council tax and CTB



- Average council tax (left axis)
- Average CTB entitlement (left axis)
- Average CTB received (left axis)
- ◆ Gross council tax liability (right axis)
- Net council tax liability, with non take-up of CTB (right axis)
- Net council tax liability, full take-up of CTB (right axis)



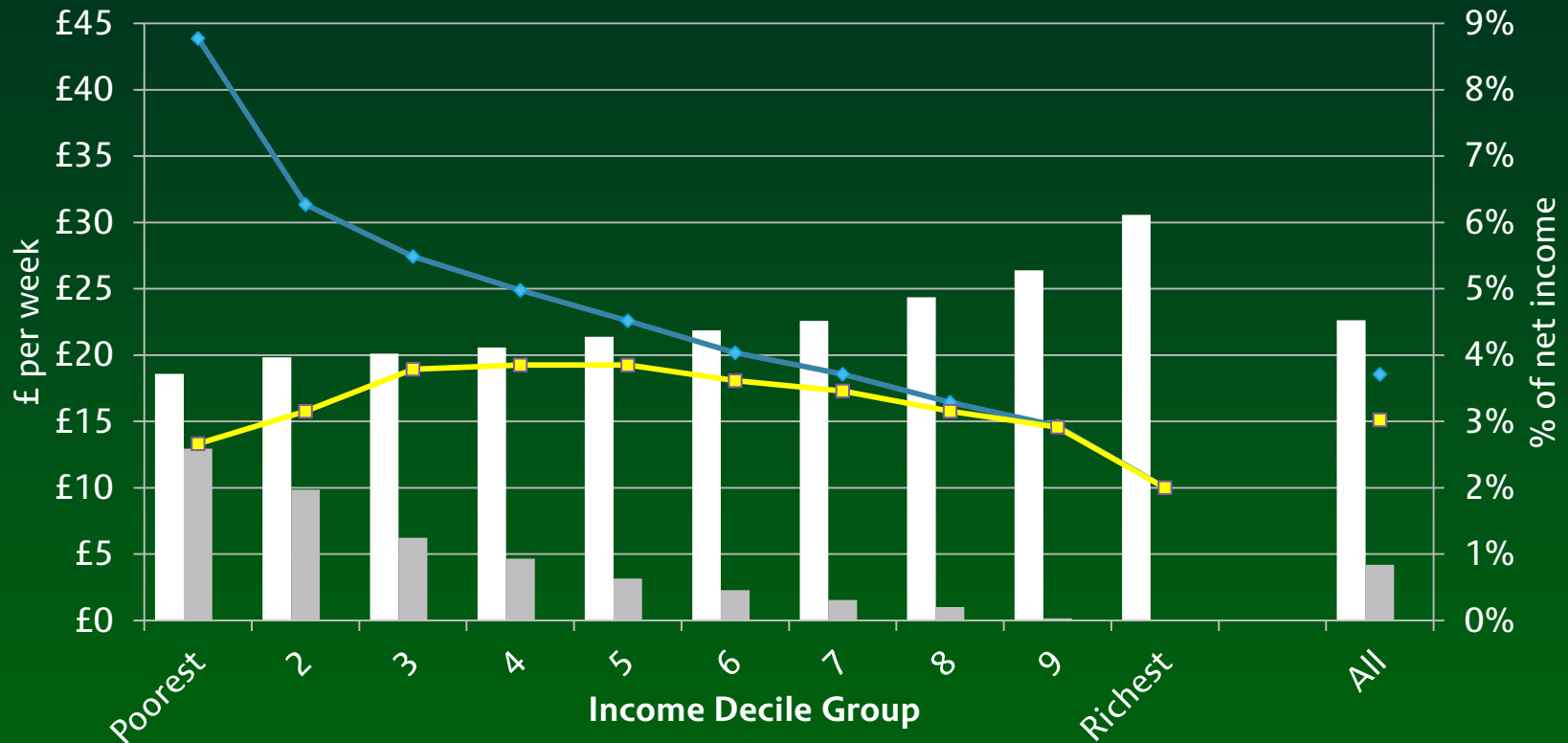
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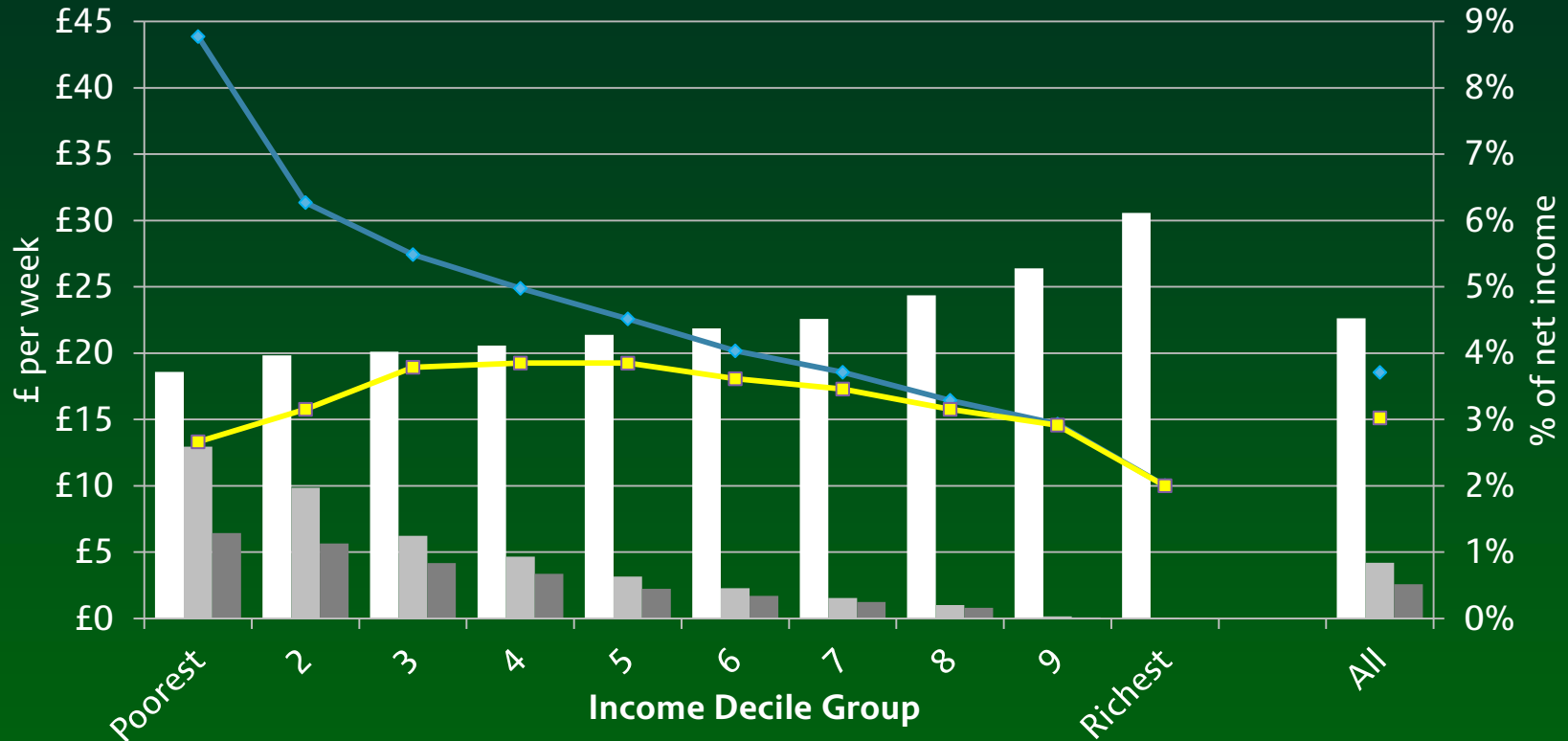
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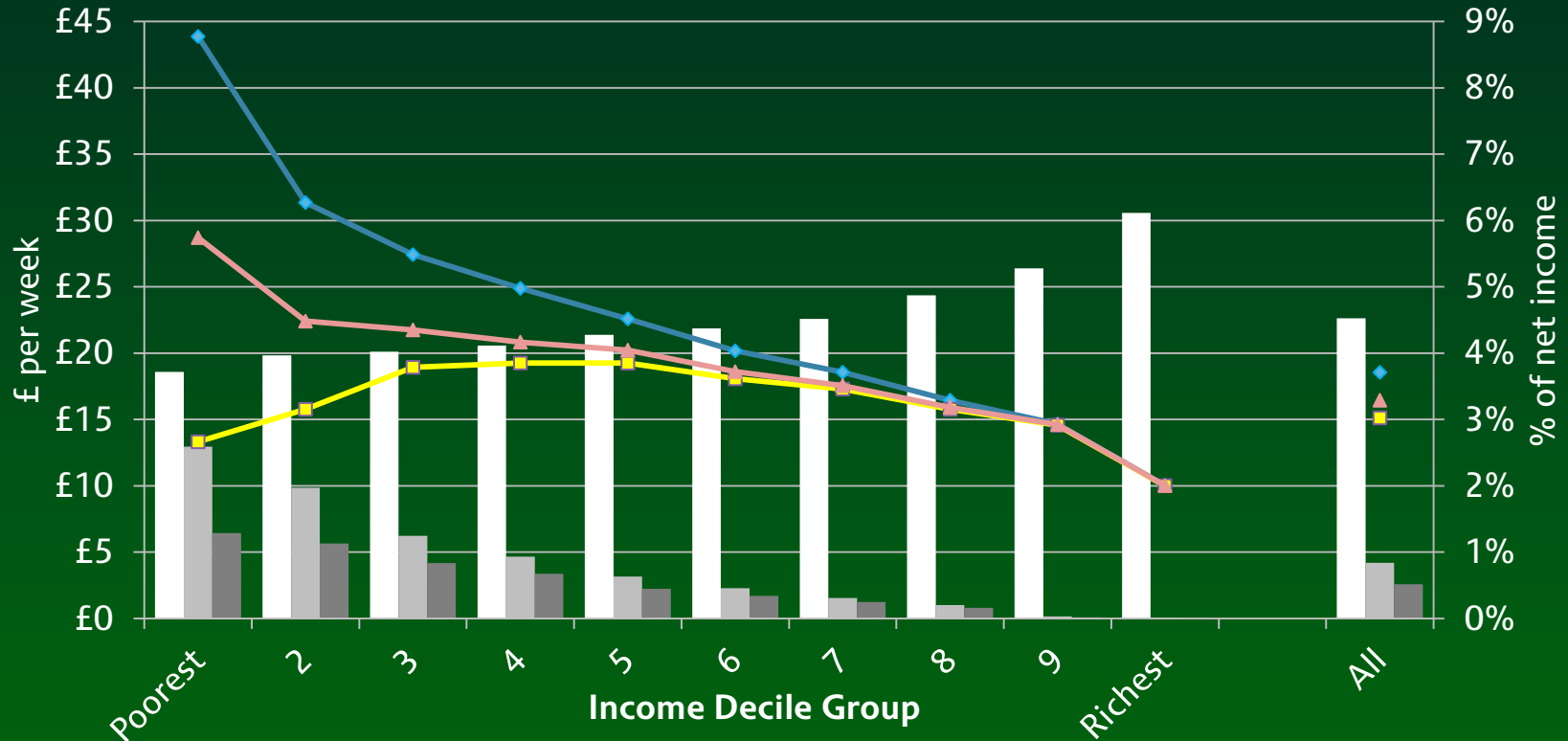
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Criticisms of CTB

- Complexity and non-take-up
 - One in three eligible families do not claim their entitlement
- Weakens incentives to work
 - Small effect on average; more significant for some groups
- Weakens incentives to save in certain forms
- An artificial incentive for claimants to live in bigger properties
- Weakens local accountability and distorts LAs' incentives
 - Spending an extra £1 requires raising less than £1 from local residents

The policy

- CTB will be abolished from April 2013
- LAs in England, and the Scottish and Welsh governments, given grants to run their own rebate schemes instead
 - But pensioners in England will get current, nationally set, entitlements
 - Scotland and Wales both decided to operate centralised schemes
- Grants will be 90% of what unreformed CTB would have cost
 - We assume 90% in each LA and in Scotland and Wales
 - *After we went to press, the government proposed min & max cuts as % of total spending, illustrated as affecting only 14 LAs. We ignore this.*
- Free to spend more or less than these grants on rebate schemes
 - Scotland: maintain existing entitlements, find savings elsewhere
 - Wales: pass on the 10% cut to claimants – but not yet decided how
 - We will publish a separate report on options for Wales in June
 - What will English LAs do?



Localising support for council tax

Two stated aims of localisation:

1. Allow local variation, to reflect local priorities
2. Give LAs incentives to promote employment and growth

Localisation will further these aims

But will also have a variety of other effects

We identify four types of effects:

- Consequences of having local variation
- Adding risk to LA finances
- Incentives for LAs
- Administration costs and incentives in two-tier areas

Consequences of local variation

- Localisation will allow schemes to reflect local priorities
- LAs may also be able to learn from a wider variety of experiences
- The end of a nationally uniform income safety-net
- Reduced transparency
- Increased bureaucracy

Adding risk to local authority finances

- LAs will receive fixed grants instead of having actual costs refunded
- So face shortfall (surplus) if cost higher (lower) than expected
 - eg change in unemployment or take-up
- If shortfall, only option is to draw on reserves
 - Cannot borrow or increase council tax in-year
 - If insufficient reserves, would have to cut spending for rest of the year
- LAs with low reserves may want to budget with extra caution
 - Find savings >10% to leave a cushion and hope to build up reserves
- Risk accentuated by (partial) localisation of business rates
 - eg closure of major local employer brings two sets of costs
- Unallocated reserves average 74% of CTB across English LAs
 - But only 3% of total spending (<1% in 25 LAs)

Incentives for local authorities (1)

- LAs will receive fixed grants instead of having actual costs refunded
- So they have an incentive to reduce the cost of rebates
- There are many ways to do this
 - Try to increase employment and incomes among claimants
 - Discourage claimants from living in the area
 - Discourage development of low-value properties
 - Don't promote take-up of rebates
 - Reduce payments made due to error and fraud
 - Reduce council tax rates
- Some of these remove undesirable distortions; others create them
- Difficult to say how far LAs will act on these incentives

Incentives for local authorities (2): future grants

- Strength of incentives will depend on how grants set in future
 - Government has not yet decided on this
- If grants adjust to reflect changing cost of rebates, gain from reducing costs only temporary
 - More frequent adjustments → weaker incentives
- Fixing grants for long periods targets changing needs less closely
- Fixing grants gives LAs more certainty how much they will receive
 - But predictable adjustments may give more certainty in overall budget
- One of the most important decisions the government has yet to take

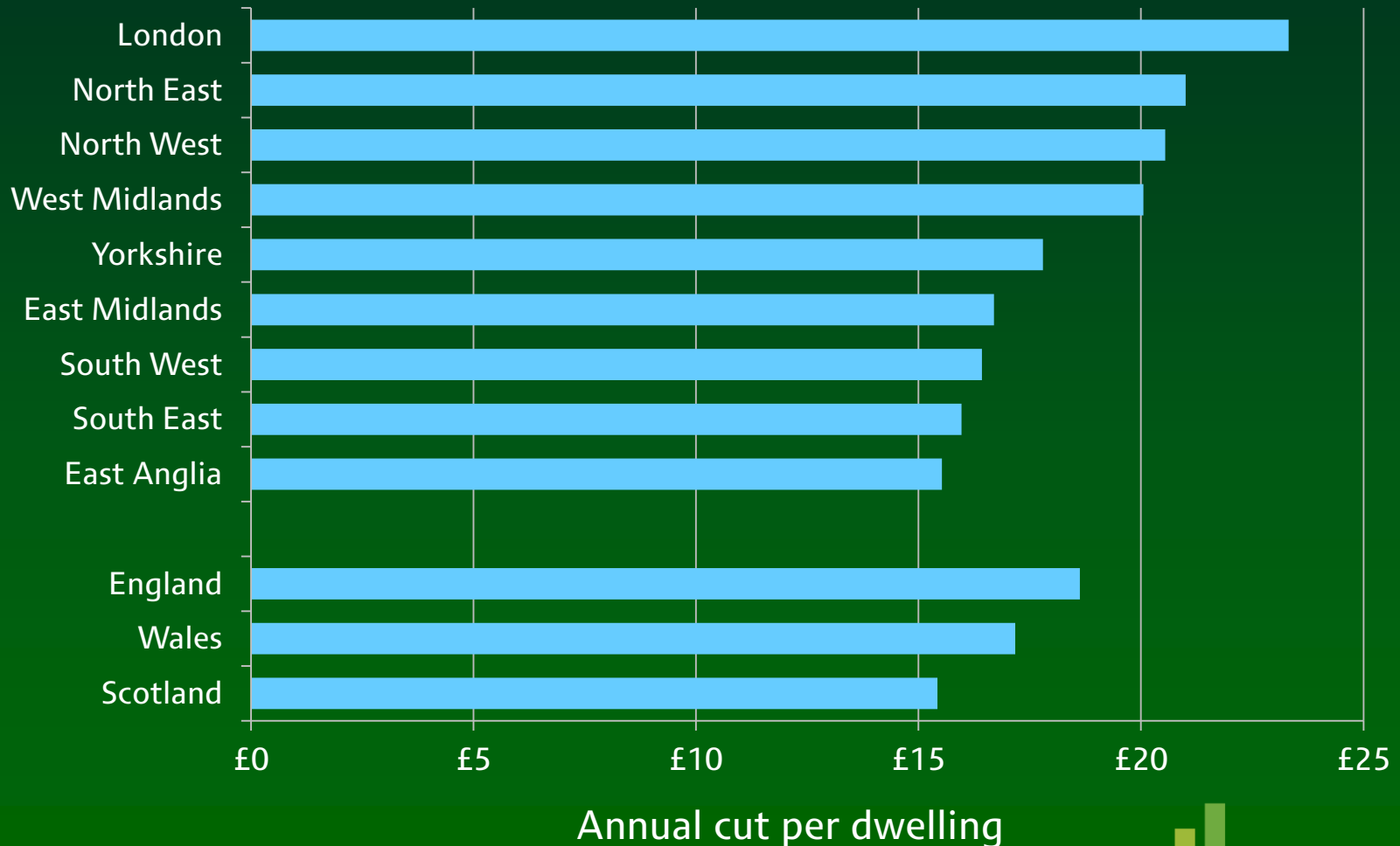
Admin costs and incentives in two-tier areas

- Shires of England have two tiers of local government
 - County councils span several district councils
 - District councils administer council tax, but keep <15% of the revenue
- District councils will design and administer new rebate schemes
 - They pay/keep 100% of changes in administrative costs
 - But less than 15% of changes in entitlements, on average
- In the shires, administration of CTB is 6% of the total cost but 30% of the cost to district councils
- An incentive to focus disproportionately on minimising admin costs
 - Even at the expense of other objectives
- Again, not clear how far they will act on these incentives

Scale of the cuts

- Funding being cut by £480m per year: £19 per household
- But not £19 per household everywhere
 - Cut proportional to spending on CTB

Annual funding cut per dwelling, by region



Distribution of funding cuts per dwelling across LAs

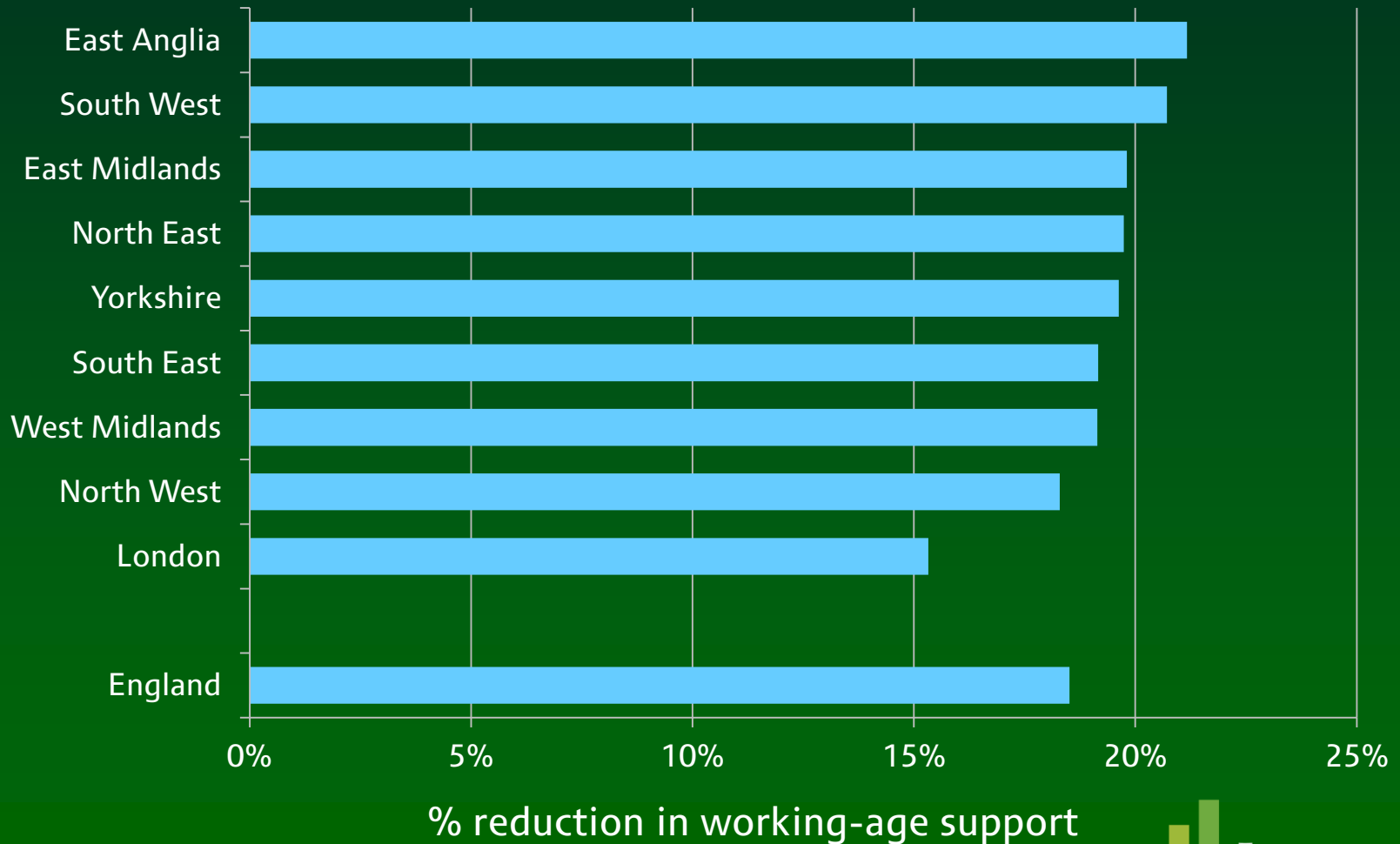


Scale of the cuts

- Funding being cut by £480m per year: £19 per household
- But not £19 per household everywhere
 - Cut proportional to spending on CTB
- No obligation to spend exactly the amount of the grant on rebates
 - Wales spending exactly the grant; Scotland protecting all claimants
 - What about LAs in England?
- If protect all entitlements, would require savings elsewhere:
 - 1.9% increase in council tax rates or 0.4% cut in local service spending
- If don't find any savings elsewhere:
 - 19% cut in support for working-age claimants on average
 - Higher where pensioners account for a larger share of CTB

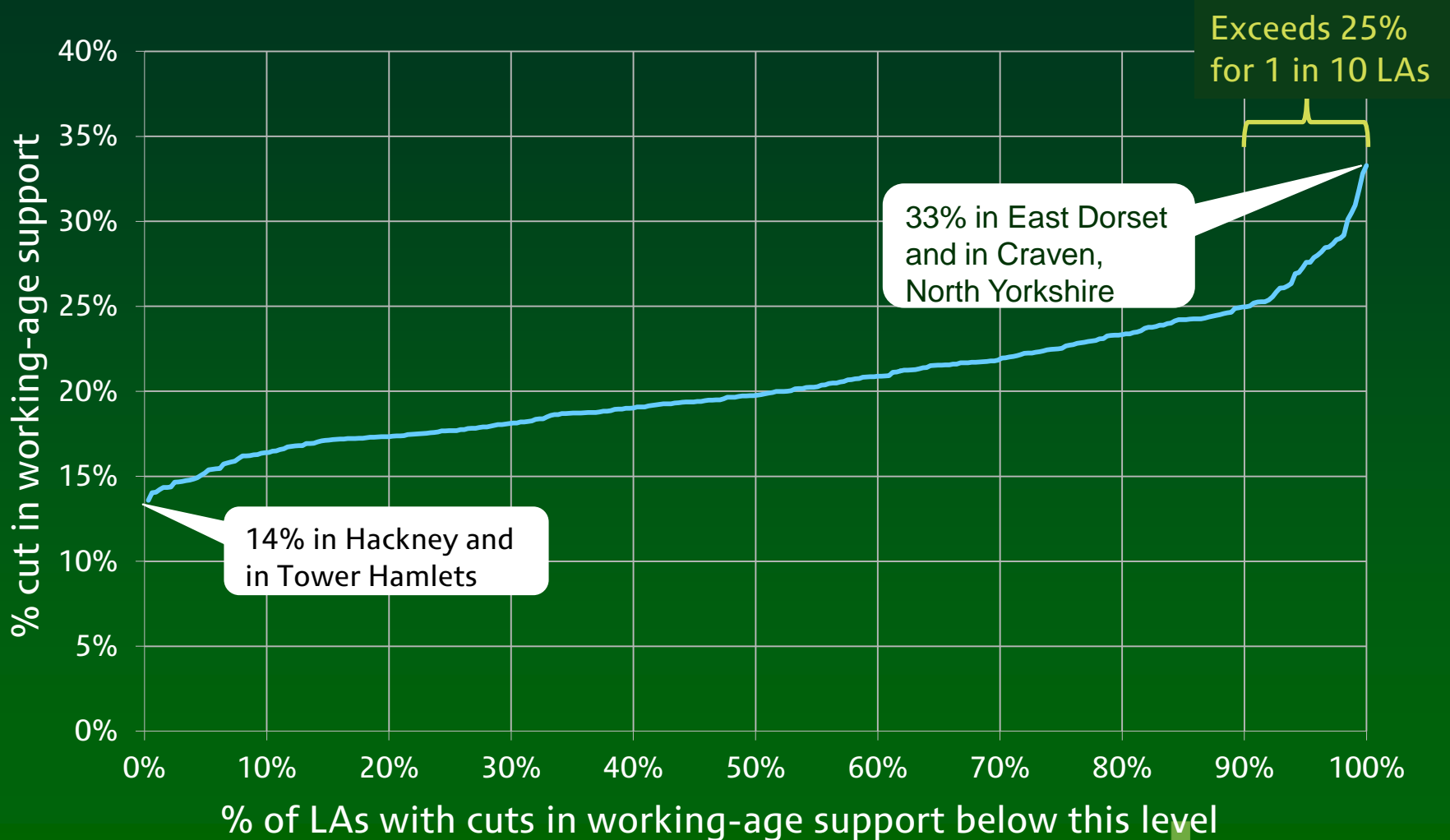
Cuts in working-age support, by region

Assuming cuts fully passed on to claimants



Distribution of cuts in working-age support

England only, assuming cuts fully passed on to claimants



Summary

- Localisation and cuts are two distinct policy choices
- Localisation will have a range of effects
 - Allow schemes to reflect local priorities
 - Reduce transparency and increase bureaucracy
 - Give LAs an incentive to reduce cost of rebates – in a number of ways
- Scale of the cut varies across Britain
 - Might not all be passed on to claimants of council tax support
 - If passed on, in England implies bigger % cuts for working-age claimants where pensioners account for a larger share of CTB
 - So how might LAs design new rebate schemes to make savings?